

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 30, 2008

Ms. Patricia Kataura
Controller / Treasurer
Southern California Regional Rail Authority
700 South Flower Street, 26th Floor
Los Angeles, California 90017-4101

Re: Southern California Regional Rail Authority
Audit of Indirect Cost Allocation Plan for Fiscal Year 2006
File No: P1190-0625

Dear Ms. Kataura:

We have audited the Southern California Regional Rail Authority (SCRRA) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2006 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The SCRRA management is responsible for the fair presentation of the ICAP. The SCRRA proposed indirect cost rates as follows:

New Capital	317.62 %
Capital Rehabilitation & Renovation	522.61 %
Equipment	81.64 %
Recollectables	189.41 %

Base: Total direct salaries and wages

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SCRRA. Therefore, we did not audit and are not expressing an opinion on the SCRRA's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material

noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the SCRRA, as well as evaluating the overall presentation.

The accompanying ICAP is prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the SCRRA in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit reports for the fiscal year ended June 30, 2006, inquiries of SCRRA personnel, and a comparison of the FY 2006 ICAP to prior year ICAP. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of April 17, 2008. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS:

Based on audit work performed, SCRRA's ICAP for the fiscal year ended June 30, 2006 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate are:

New Capital	317.62 %
Capital Rehabilitation & Renovation	522.61 %
Equipment	81.64 %
Recollectables	189.41 %

The rates are based on total direct salary and wages. The approval is based on the understanding that no carry-forward provision applies because the rates are based on actual costs.

This report is intended solely for the information of the SCRRA, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Cliff Vose at (916) 323-7917 or Teresa Greisen, Audit Manager, at (916) 323-7910.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
DLAE, District 7
P1190-0625

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final	7/1/05 to 6/30/06	79.36%	G&A
Final	7/1/05 to 6/30/06	317.62%	New Capital
Final	7/1/05 to 6/30/06	522.61%	Capital Rehabilitation & Renovation
Final	7/1/05 to 6/30/06	81.64%	Equipment
Final	7/1/05 to 6/30/06	189.41%	Recollectables

*Base: Total Direct Salaries and Wages

SECTION II: General Provisions

A. Limitations:

The rates in the Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) that no costs other than those incurred by the grantee or allocated to the grantee via an approved Central Service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee and allowable under the cost principles contained in OMB Circular A-87; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) that prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133; (5) that the actual costs used in the calculation of the approved rate are from the grantee's Single Audit; and, (6) that the information provided by the grantee which was used as a basis for acceptance of the rate approved herein is not subsequently found to be materially inaccurate.

B. Audit Adjustments: Immaterial adjustments resulting from the audit of information contained in this indirect cost plan will be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursements from the grantee.

C. Accounting Changes: The rate contained in this indirect cost plan is based on the organizational structure and the accounting system in effect at the time the plan was approved. Changes in the organizational structure or changes in the method of accounting for costs which affect the amount of reimbursement resulting from the use of the rate in this plan require prior approval from Caltrans. Failure to obtain such approval may result in subsequent audit disallowances.

D. Final Rate: The final rate contained in this indirect cost plan is based on actual costs, which were incurred during the fiscal year to which the rate applies. Therefore, a carry-forward provision does not apply.

E. Use By Other Federal Agencies: Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects or programs, for which DOT is not the cognizant federal agency. The approval will also be used by Caltrans in state-only funded projects.

F. Other: If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

H: Rate Calculations

The Southern California Regional Rail Authority utilizes a two-tier allocation process to allocate indirect costs. The first tier allocates allowable general and administrative expenses to project overhead pools on the basis of indirect and direct staff salaries charged within each project category. The allocation excludes fringe benefits. Normally, the first tier allocation utilizes the budget for G&A costs and indirect/direct labor budgeted in each project category as the basis of the G&A allocation. However, in the FY 2005-06 ICAP G&A expenses will be allocated based upon actual allocable G&A expenses as a relationship to actual indirect and direct labor charged to project categories. In doing so, all allocable G&A expenses incurred in the fiscal year will be allocated to the project categories. The second tier allocates cost in the project overhead pools (project category overhead costs plus allocated G&A) to direct projects within each project category. Typically, the allocation rate is based upon the ratio of budgeted costs in the project overhead pools as a function of direct labor budgeted for each project category. However, in FY 2005-06, the second tier allocation will be completed based upon actual direct labor charges. Consequently, all the indirect costs incurred in the project categories will be allocated.

The Fiscal Year 2005-06 Tier 1 and Tier 2 allocations are summarized below, followed by a chart illustrating the cost allocation model.

TIER 1

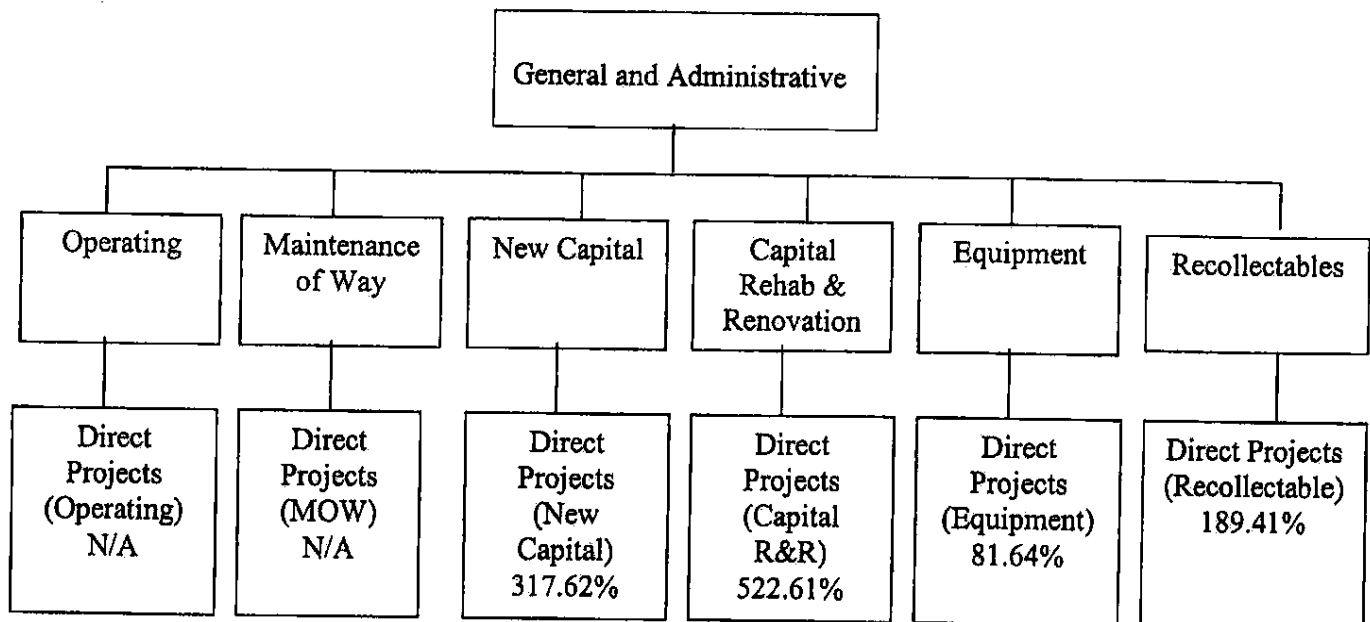
	<u>Indirect Cost</u>
FY 2005-06 Actual Indirect and Direct Salaries (from Attachment 1)	\$9,217,162
FY 2005-06 Actual General and Administrative (from Attachment 1)	7,314,674
Over Recovery Carry-Forward N/A	0
Actual General and Administrative FY 2005-06:	7,314,674
Computed Rate for FY 2005-06 (Actual Gen and Admin ÷ Indirect/Direct Salaries)	79.36%

TIER 2

Project Category Name A	Actual Direct Labor B	Overhead and Allocated G&A Costs C	Indirect Rate C ÷ B
Train Operations*	N/A	N/A	N/A
Maintenance of Way*	N/A	N/A	N/A
New Capital	177,302	563,141	317.62%
Capital Rehabilitation & Renovation	187,833	981,632	522.61%
Equipment	82,485	67,339	81.64%
Recollectables	426,961	808,698	189.41%

*Amounts are paid through member agency subsidies. Annually, composite allocation rates for each member agency are derived. These composite rates are used as the allocation base of indirect costs to each member agency.

The following chart presents a hierarchy of how costs are allocated in the ICAP. As illustrated above, G&A expenses flow to the project overhead pools, and then to the direct projects. In FY 2005-06, the allocation of each project categories actual indirect expenses to the direct projects is based upon the actual indirect costs as a function of actual direct labor charged in the project category. As shown on the chart, project overhead expenses are allocated at 317.62%, 522.61%, 81.64%, 189.41% to direct projects in new capital, capital rehabilitation & renovation, equipment and recollectable, respectively.



Section III: Certification and Approval

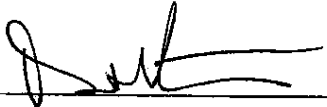
CERTIFICATION OF INDIRECT COSTS:

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2006 (July 01, 2005 to June 30, 2006) are allowable in accordance with the requirements of the federal and state awards to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to the federal and state awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with the applicable requirements. Further, the same costs that have been treated, as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rate.

I declare that the foregoing is true and correct.


Southern California Regional Rail Authority:



Signature

Reviewed, Approved and Submitted by:

Name of Official: Patricia Kataura
Title: Controller/Treasurer
Date: 5/12/08
Telephone Number: (213) 452-0333



Signature

Prepared by:

Name: Edward Enriquez
Title: Manager, Accounting
Date: 5/12/08
Telephone Number: (213) 452-0312

INDIRECT COST RATE APPROVAL:

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Mary Ann Campbell-Smith
Signature

Review and approved by:

Mary Ann Campbell-Smith
(Name of Audit Manager)

Title: Chief, External Audits

Date: 6/30/08

Phone Number: (916) 323-7105

Clifford R Vose
Signature

Review and approved by:

Clifford R Vose
(Name of Auditor)

Title: Senior Management Auditor

Date: 6/30/08

Phone Number: (916) 323-7917


Memorandum

*Flex your power!
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To: GARY SIDHU
Deputy District Director
District 3 Program/Project Management

Date: July 7, 2008

File: P2515-0002

From: 
GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Audits of Proposition 1B Projects – North Region

This is to inform you that the State Controller's Office (SCO) will be auditing projects funded by Proposition 1B in the North Region. Audits and Investigations (A&I) is responsible for coordinating audits of Proposition 1B projects and has contracted with the SCO to perform the audits. Sections 8879.2(c) and 8879.50 of the Government Code require audits of Proposition 1B projects.

The SCO is preparing to audit the following State Highway Operations and Protection Program Augmentation project in District 3:

- EA 4E1104 – Install vehicle detection systems in Placer, Sacramento, El Dorado, Sutter, and Yolo Counties.

The SCO will contact project personnel to set up entrance conferences and request documents and information for the audit.

We will inform you of audits of Proposition 1B projects in the North Region as they are assigned. If you have any questions, please contact Douglas Gibson, Proposition 1B Audit Coordinator, at (916) 323-7915.

c: Jody Jones, District 3 Director
Frank Maskovich, Deputy District Director, Administration
John Rodrigues, Chief, North Region Construction
Brian Simi, Project Manager
MaryAnn Campbell-Smith, External Audit Manager
Andy Finlayson, Bureau Chief, SCO
Douglas Gibson, Proposition 1B Audit Coordinator